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ANNUAL LOSSES

TO CERTAIN

NATIONAL BANKS

OF

$1,229,765.39,

AND THE

REMEDY PROPOSED.

SPEECH

OF

HON. J. H. WALKER,

OF MASSACHUSETTS,

IN THE

HOUSE OF REPRESENTATIVES,

APRIL 1, 1890,

ON BILL 8897 TO ESTABLISH A NEW

BANKING CODE.

WASHINGTON.
1890.

SPEECH

OF

HON. JOHN H. WALKER.

The House having under consideration the bill (H. R. 8897) to secure to the people the profit that may accrue from the issue of circulating promissory notes by banks and called money, and for the organization, direction, and control of banks by the people—

Mr. WALKER, of Massachusetts said:

Mr. SPEAKER: To illustrate the working of banks to-day under the existing law, I have had prepared the following statement to accompany the draught of the bill I present to establish a national banking code. What is said of the banks named is true of banks the country over, and each bank can figure out for itself the results in its own case should the code proposed be adopted:

Number of banks, the amount of their capital, bonds deposited to secure circulation, circulation outstanding, net deposits, and reserve held of the national banks having $100,000 *capital or less in the States of Missouri, Minnesota, Georgia, Tennessee, Pennsylvania, and Massachusetts, as shown by their reports of condition at the close of business on December* 11, 1889.

States.	No. of banks.	Capital.	Bonds.	Circulation.	Net deposits.	Reserve held.
Missouri	44	$2,975,235	$797,750	$668,435	$5,175,418	$1,663,193
Minnesota	40	2,645,000	762,300	682,100	5,284,656	1,268,410
Georgia	19	1,310,500	505,500	443,190	2,642,015	1,310,128
Tennessee	31	2,260,000	667,750	589,100	3,469,099	914,954
Pennsylvania	166	13,059,660	5,722,800	5,001,615	37,328,668	10,435,819
Massachusetts	53	4,902,500	1,853,000	1,550,867	9,766,023	2,722,492
Total	353	27,152,895	10,309,100	9,035,307	63,665,879	18,314,996

The bonds owned by these banks of the par value of $10,309,100 would cost a premium to-day at 24 per cent. per annum, or $2,474,184.

It will be seen that they were entitled to receive circulating notes to the amount of $242,883 more than they have taken. They are entitled to receive 90 per cent. of their par value in circulating notes, or $9,278,190; but no banking business can be safely done without a redemption fund for its notes and a reserve fund also.

The note-redemption fund required by the Government is 5 per cent. on their circulation, or $463,909.50, which deducted from their circulating notes leaves available to them only $8,814,280.50. It comes

to this, then, that the banks are obliged to pay for that amount of currency notes, at 24 per cent. premium on their United States bonds, their price in the market to-day, $12,783,284.

The banks get interest on the par value of the $10,309,100 bonds held by them, at 4 per cent		$412,364.00
Interest on $8,814,280.50 circulation, at 6 per cent		528,856.83
Total possible income on bonds and currency notes		—941,220.83
The banks lose on $12,783,284, price of bonds, at 6 per cent	$766,997.04	
Tax of 1 per cent. per annum on its currency notes, $9,278,190	92,781.90	
Yearly loss on premium paid, .001.37	*236,149.00	
Redemption charges	9,510.14	+1,105,438.08
Annual net loss to all banks named		164,217.25

That is to say, that notwithstanding the Government pays to these banks 4 per cent. per annum upon the bonds it compels the banks to buy in order to secure $9,278,190 in promissory currency notes to circulate as money, the banks still lose, on a basis of a 6 per cent. rate of interest, $1\frac{3}{4}$ cents on every dollar of currency notes they get from the Government, which an individual banker would save, or over 6 mills per cent. per annum on their total capital.

The banks throughout the country are now calling for a 2 per cent. fifty-year bond, upon which to secure circulation. Their currency account would then be as follows:

$10,309,100 of bonds, at 2 per cent		$206,182.00
$8,814,280.50 currency notes, at 6 per cent		528,856.83
Total possible income on bonds and currency notes		735,038.83
$10,309,100 cost of bonds, at 6 per cent	$618,546.00	
Tax of 1 per cent. on $9,278,190 currency notes	92,781.90	
Redemption charges	9,510.14	
		720,838.04
Yearly gain on circulating notes		14,200.79

But by continuing the present system, using either the 4 per cent. at their price or the 2 per cent. bond, if one were issued, the principle of sound banking is violated. It is wasteful beyond the thought of persons who have not critically examined the system, or rather the want of system, of the United States.

If currency notes are made to cost more than their normal price in the end it comes out of the people. Banking is as necessary in the conduct of the business of the country as is the means of transportation. If railroads are made to cost more than is necessary, the people are compelled to pay higher freight charges and are also hindered from putting their capital into railroads, to their great loss. So if the free loaning of the capital put into banks is hindered by the circulating notes of banks called money, which are proper and necessary to the banks in loaning the capital of the banks, being made to cost the bank an exorbitant price, the people having capital to loan are hindered from putting their capital into banking and the people borrowing the capi-

*English table of annuities. Jones on Annuities, volume 1.

tal of the bank are made to pay a high price for the capital they borrow.

Instead of the banks named losing by the present system, over a proper system of issuing currency bank notes on their 4 per cent. bonds, only $164,217.25 they really lose about $1,229,765.39, or at the rate of about $4\frac{1}{2}$ per cent. on their capital, in an unwise system of providing currency notes for the use of these banks. This is an utter waste, and comes out of the people by a system of banking more costly than that of any other Christian country.

By the system which is embodied in the proposed banking code which I herewith present the banks named would be entitled to receive currency notes, practically as safe to the holders of them as those now issued on United States bonds, to the amount of $23,977,995, and the currency-note account, computed as in the other cases, would be as follows:

$22,893,745 of currency notes at 6 per cent.		$1,373,624.70
The banks would lose at the same rate of interest as a 2 per cent. bond on circulation of $4,578,749, bought of the United States Treasurer at 2 per cent	$91,574.98	
Redemption charges	23,351.62	
		114,926.60
Annual saving to the banks and the people		1,258,698.10

in banking under the proposed bill.

This is not a sum "given to the banks." It is a sum of which they are now deprived and to which they are justly entitled.

This loss is made up of loss of use, and therefore loss of interest, upon a considerable part of the capital originally paid into the banks by their owners, which they received for their farms, or houses, or merchandise they sold to get the capital to form the bank, and of its depositors, namely:

$18,314,996 in coin or lawful money in their reserve fund at 6 per cent. per annum	$1,098,899.76
Interest on the 5 per cent. note redemption fund in the hands of the Treasurer of the United States of $463,909.50 at 6 per cent	27,834.57
Total interest on actual capital the banks own that is tied up under the present system	1,126,734.33

There will be, however, a loss to the banks under the code which can only be justified upon the principle that the Government has a right to impose a tax upon them.

This annual loss to the banks will be in the nature of a tax upon the circulation the banks would get under the proposed banking code, of about 4 mills per annum in loss of 2 per cent. annually as the money bought of the United States Treasurer.

This matter is of prime importance to the people, for there is no one thing more necessary to secure to working people their fair share of the products of a country without excessive tribute to middle men than a circulating medium, uniform and unvarying in value. Men in middle life can not realize the great loss that came to producers and con-

sumers in this country from the imperfect monetary system that existed in the United States for fifty years prior to 1863.

Exchanges during that period were as high as 10 per cent. between Chicago and Boston, and this great expense of making money exchanges in exchanging products came out of the consumer, who at the same time is the producer of the country, and went into the pockets of middle men. Exchanges are now made between the most remote parts of the country practically without cost, which is all in the interest of the consumer.

Our present banking system, while the best this country ever saw, is enormously expensive, and it can not continue much longer without some means is devised for continuing its excellences and remedying its defects. The banking bill which I have prepared is intended to furnish the cheapest possible circulating medium for the use of the people, costing them the least possible sum for its use, and that is at the same time safe and enduring.

It proposes to release all the United States bonds now held by the banks so that the United States Government may buy them at the cheapest rate—at their normal and natural price in the market—without any fictitious price being given to them by the requirement that national banks shall hold them to secure their currency notes.

The bill proposes that the banks shall, in place of the bonds, deposit United States notes, coin, or coin certificates for the circulating notes of the bank to the extent of 10 per cent. of its capital for associations having a capital of $250,000 or less, and for those whose capital exceeds $250,000 to the extent of $25,000; that these notes, upon the insolvency or expiration of the charter of the bank, shall be redeemed by the Treasurer of the United States in coin or coin certificates, and confers upon him the right to sell bonds for coin to redeem such notes. Practically the redemption of these notes will never be required.

Secondly. That the bank shall have the right to issue notes to an amount not to exceed its coin or coin-certificate reserve, as determined from time to time by the Comptroller of the Currency; that the notes issued redeemable by the bank and not by the Treasurer of the United States shall differ in color and in the affirmation printed upon them from the notes received from and to be redeemed by the United States Treasurer, with provisions for their payment in case of the insolvency of the bank that assures their final payment.

Of the money deposited with the Treasurer for circulation 90 per cent. shall be used for the redemption and destruction of United States notes to that amount, the notes issued under the bill taking their place; that 10 per cent. be set aside in coin or coin certificates for the redemption of the notes of each bank; that all the provisions of law now existing for supervision and control of banks are retained.

The provisions of this bill make the bank equally as secure and the redemption of its circulating promissory notes equally certain with the present system and at the same time save to the people the interest on the lawful money held in the redemption accounts which under any other system is lost to the people. The coin held by the Government outside of the banking system of the country is so much capital held out of practical use, and the interest upon that amount of capital is lost to the country, while coin to the amount necessary to safety, held in the banking system in its reserve account, is represented in the circulating medium of the country, as is the case in every Christian country excepting the United States.

In the latter case there is no advantage to the people in the amount of coin held by the Government. In the case of the banks holding it, with the right to issue notes to the same amount, the coin performs two offices—it ministers to the safety of the banking system of the country, which it can not do while in the Treasury of the United States, and also is represented in the currency notes of the banks.

The $621,000,000, more or less, of coin now in the United States Treasury is a certain loss to the people, at 4 per cent. per annum interest, of over $24,000,000 per annum, and this loss is not lessened by issuing certificates that circulate for money among the people, because if these certificates were issued by the banks as bank promissory currency notes, representing coin held by the banks, it makes coin a part of the monetary system of the country and performs the two offices named. When held in the United States Treasury it is no more a part of the monetary system of the country than it would be if it were held in other countries or held by an individual.

If it is said the people of the United States do not lose this $24,000,000 because the Government has certificates for it in circulation, then the banks lose it, and the money gotten out of the banks, in loans by the people, costs the people that much more in interest charged by the banks than they would pay if the banks held this amount of coin as a part of the monetary system of the country and issued notes upon it instead of the Government. The people are, therefore, justified in their complaints of the banking system. A bank owes to the community in which it exists and the country that charters it two offices which it ought not to be released from performing.

The first is to furnish circulating notes to answer for the checks, drafts, bills of exchange, etc., for the common people, and secondly, to hold a sufficient amount of coin to measure the value of products exchanged in the country by settling balances between the banks with it. No monetary system ought to be allowed to exist that does not do these two things. To furnish a safe deposit for such capital of individuals as they do not at that time need, and lend the same to other individuals who do need it at that time is not enough. Finally, no more supervision, control, or burdens should be imposed upon banks than experience has proved, not theory has suggested, is absolutely necessary to their proper safety and service of the people.

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